THE WALL STREET JOURNAL.

Financial Regulation
Markets

How the Stock Ticker MMTLP Became an Anti-Wall Street Rallying Cry; Individual investors are on the warpath after bad bet on over-the-counter energy shares touted on social media

By Alexander Osipovich
1,615 words
7 June 2023
09:00
The Wall Street Journal Online
WSJO
English

Thousands of investors made an ill-fated bet on over-the-counter securities that were highly touted on social media and represented a claim on a small Texas energy company with no proven oil reserves.

When the bet soured late last year, an army of angry individual investors went on the warpath. They didn't blame the company. They didn't blame the online promoters who had predicted an epic rally. Instead, they blamed the regulator that halted trading in the securities.

Since then, the ticker **MMTLP** has become a rallying cry for people angry at the Financial Industry Regulatory Authority and, by extension, the entire financial system. Market veterans say the investors' rage is misguided.

The episode is the latest example of how social media is a double-edged sword in today's stock market. Online communities allow individual investors to connect and share trading tips, but they can also fan conspiracy theories and lead to disastrous investing decisions.

MMTLP was a set of preferred shares whose value was largely underpinned by oil and gas assets in the Orogrande Basin of West Texas. They were issued in 2021 when Torchlight Energy Resources, a Plano, Texas-based oil company, merged with Meta Materials, a Canadian nanotechnology firm. They traded in the risky OTC market until December, when they were removed from circulation.

In their last weeks of trading, buzz mounted that the shares were poised for a short squeeze, a phenomenon in which short sellers exit their bets against a stock, causing its price to rally. Fueled by such chatter, **MMTLP** surged more than 650% from the start of October to Nov. 21. That put a peak valuation of about $2 billion on the underlying assets—even though some oil and gas analysts have dismissed them as worthless.

The catalyst for the anticipated squeeze was an unusual transaction in which **MMTLP** shares were set to be converted into shares of a new, nonpublicly traded company called Next Bridge Hydrocarbons. Many investors were convinced that short sellers had placed massive, hidden bets against **MMTLP** in the months and years before the planned conversion. They expected it to trigger a last-minute scramble as shorts snapped up **MMTLP**, sending the share price surging.

On Dec. 9, 2022, Finra halted trading in **MMTLP**. Such halts are part of Finra's tool kit for preventing market disruptions. But the halt surprised adherents of the short-squeeze theory, who expected two more days of trading in which to realize their gains.

Some investors had poured tens of thousands of dollars into **MMTLP** expecting big profits. Instead, they were stuck with shares they can't sell.

"Given the lack of drilling success, production or cash flow at Orogrande, it is certainly possible the preferred stock transaction was simply a means to create the perception or reality of a short squeeze," said Jeff Davies, a former energy hedge-fund manager.

"Unfortunately the people who bought into the short-squeeze thesis and spent no time valuing the underlying assets got hurt the most."

Fort Worth, Texas-based Next Bridge declined to comment. Meta Materials Chief Executive George Palikaras said his company spun out the energy assets into a private company to protect shareholders from problems such as naked short selling—an abusive practice in which short sellers place bets against a stock without obtaining the shares needed for the trade.

Market professionals dispute the idea that naked shorting is widespread in U.S. stocks.

Over the past six months, **MMTLP** investors have formed a noisy protest movement, wielding hashtags such as #FinraFraud. They allege that Finra's halt covered up a conspiracy among hedge funds and market makers to suppress the price of Torchlight, and later **MMTLP**, through naked short selling.

Some **MMTLP** investors have picketed the Securities and Exchange Commission's headquarters in Washington, and one buttonholed the agency's head on Capitol Hill in April. Others sued Finra in California, Florida, Georgia and Washington; a judge dismissed the California suit and the regulator is fighting the others.

Republicans on the House Financial Services Committee are "conducting a preliminary review of the events surrounding **MMTLP** and the regulatory response," a spokeswoman for the committee's majority said.

Some Finra employees and market veterans caught up in debate around **MMTLP** have received death threats. In one anonymous message to a market veteran seen by The Wall Street Journal, the sender alluded to mass shootings and vowed to come "piss on your casket."

Torchlight bought the Orogrande assets at the heart of the **MMTLP** saga for $3.3 million in 2014. Over the following years, company executives talked up the potential of the assets in a series of media interviews, and in 2019 Torchlight released an assessment saying its Orogrande acreage could yield the equivalent of 3.7 billion barrels of oil. John Brda, the CEO of Torchlight at the time, said the project could be worth more than $500 million.

Skeptics questioned such claims. Davies, the former energy hedge-fund manager, filed an SEC whistleblower complaint about Torchlight in 2019, saying it "appears to be a long-running fraudulent enterprise." Brda said by email that Davies's allegations were "100% false," and Torchlight spent about $1 million to respond to an ensuing SEC inquiry. The SEC declined to comment.

In 2021, the oil driller executed a reverse merger and became Meta Materials. As part of the deal, Torchlight shareholders received preferred shares that entitled them to a special dividend whenever Meta Materials spun out its energy assets. Those shares later got the ticker **MMTLP**.

Meta Materials disclosed a few months after the Torchlight merger that it received an SEC subpoena seeking records about the deal. The company has said it is cooperating with the SEC investigation, and the SEC hasn't brought forward any claims against Meta Materials.

In recent months, the SEC and federal prosecutors have charged several stock promoters for alleged pump-and-dump schemes in Torchlight shares before the 2021 reverse merger. Brda said Torchlight management wasn't aware of the schemes, and no executives at Torchlight or Meta Materials have been accused.

Meta Materials finalized the plan to spin out its energy assets in November. Under the plan, anyone who held **MMTLP** on Dec. 12 would get shares of Next Bridge.

Unlike typical stocks, Next Bridge shares wouldn't be eligible for electronic transfer at the clearinghouse that settles U.S. stock trades. The restriction was an unusual, deliberate move by Meta Materials that would effectively make the new shares untradeable. Insiders such as former Torchlight CEO Brda cheered the maneuver as a way to punish short sellers.

Anticipation of a squeeze mounted. Next Bridge said in a Nov. 9 registration statement that the price of **MMTLP** "may rise significantly" due to short sellers buying shares to exit their trades. Echoing that claim were investors

with online followings, such as Bird Lady Rollerpigeons, a Texas woman who posts YouTube videos about **MMTLP** while dressed in a bird costume.

"There's going to be a very high demand for these shares…Judgment Day is coming," Bird Lady said in a Dec. 3 video. Reached for comment, the 42-year-old Texas woman said she wasn't involved in pump-and-dump schemes and hadn't sold any of her **MMTLP** shares.

SHARE YOUR THOUGHTS

Who do you think is really at fault in the **MMTLP** episode? Join the conversation below.

Before the opening bell on Friday, Dec. 9, Finra halted trading. The reason, Finra said, is because U.S. stock trades take two business days to settle, so only people who bought shares by Dec. 8 would be recorded as owners of **MMTLP** by Dec. 12 and thus eligible for the Next Bridge distribution. In a scenario where trading continued after Dec. 8, someone buying **MMTLP** wouldn't be eligible to get the Next Bridge shares, so their unsettled **MMTLP** shares would be an empty shell with zero value.

"If we hadn't halted trading, we would have had investors rightfully complaining about having been badly hurt," Finra Chief Legal Officer Robert Colby said in an interview.

Still, the halt stunned investors. Amid a jumble of confusing messages from brokerages, Finra and Meta Materials itself, many investors expected to be able to sell **MMTLP** until Dec. 12. They said Finra's halt robbed them of two trading days in which they could have realized their gains from the anticipated squeeze.

Landon Fitzgerald, a 47-year-old roofer in Denver, plowed about $31,000 into **MMTLP** on Dec. 8, the last day before the halt, according to screenshots of his brokerage statements reviewed by the Journal. He said he planned to sell some for a profit during the anticipated squeeze and hold the rest as a long-term investment.

Now, his TD Ameritrade account shows a pile of Next Bridge shares that can't be sold and have a price of "NA." Incensed, Fitzgerald drove to Washington to attend an "Occupy the SEC" rally by **MMTLP** investors in January.

Some investors have urged Finra to release data to confirm or disprove their theory that **MMTLP** were subject to massive, hidden short bets before the halt.

Richard Fizzuoglio, an **MMTLP** investor on Long Island, N.Y., said he doesn't buy Finra's explanation of the halt. "We're not crazy people," he said. "We just want to know: Why did you halt it? Who are you protecting?"

Write to Alexander Osipovich at alexo@wsj.com

Document WSJO000020230607ej67002e5

